# EXHIBIT P

# Tips for Teaching Students About Saving and Investing

We've listed below a series of talking points that can help teachers or parents introduce students to the basics of saving and investing and help them understand the importance of planning for their financial future. We've also provided a list of resources and interactive tools for young people.

**Key Topic: Why Save and Invest?**

Many people experience financial hard times when they get older because they never got the facts on saving and investing.

The best way to achieve financial success is to plan for it. Maybe you'd like to:

- buy a car when you graduate from high school or college;
- have money set aside for special occasions or emergencies;
- buy a house someday; or
- live comfortably in retirement.

Once you decide what you're saving for—and when you'd like to have it—you can decide how you should save and invest.

The best time to learn about money is when you're young and still in school. Starting young lets you take advantage of the magic of "compound interest."

**Key Topic: What Is "Compound Interest"?**

Compound interest is the interest you earn on interest.

**Illustration Using Basic Math**

If you have $100.00 and it earns 5% interest each year, you'll have $105.00 at the end of the first year. But at the end of the second year, you'll have $110.25. Not only did you earn $5.00 on the $100.00 you initially deposited—your original "principal"—but you also earned an extra $0.25 on the $5.00 in interest. Twenty-five cents may not sound like much at first, but it adds up over time. Even if you never add another dime to that account, in 10 years you'll have over $162.00 through the power of compound interest, and in 25 years you'll have almost $340.00.

**Rule of 72**

The Rule of 72 — really just a "rule of thumb" — is a great

way to estimate how your investment will grow over time. If you know your investment's expected rate of return, the Rule of 72 can tell you approximately how long it will take for your investment to double in value. Simply divide the number 72 by your investment's expected rate of return (ignoring the percent sign). Assuming an expected rate of return of 9 percent, your investment will double in value about every 8 years (72 divided by 9 equals 8).

Knowing how quickly your investment will double in value can help you determine a "ballpark" estimate of your investment's future value over a long period of time. Let's say that you invest $10,000 in a retirement plan. What will your investment be worth after 40 years, if you don't make any additional contributions? Assuming an expected rate of return of 9 percent, the total approximate value of your investment would double to $20,000 in 8 years, $40,000 in 16 years, and $80,000 in 24 years, $160,000 in 32 years, and $320,000 in 40 years.

### Illustration Using Pizza

Here's another way to look at compound interest. How much does a slice of pizza cost? Would you believe nearly $65,000? If a slice of plain pizza costs $2.00, and you buy a slice every week until you're old enough to retire, you'll spend $5,200 on pizza. If you give up that slice of pizza and invest the money instead, earning 8% interest compounded every year for 50 years, you'll have over $64,678.87.

### Illustration Using the AIE Savings Calculator

If your classroom has access to the Internet, use the AIE Savings Calculator to do a "live" demonstration of the power the compound interest. For example, a 12 year old who invested the $5.00 he or she might otherwise have spent on a fast-food meal would have nearly $350.00 at retirement. And an 18 year old who invested the $75.00 he or she might otherwise have spent on yet another pair of sneakers would have nearly $3,200.00 by age 65.

**Tip:** We've designed posters to illustrate four examples using the calculator. The posters are in pdf (Adobe Acrobat) format so you can print them easily at your own computer. If you are demonstrating the calculator in a classroom or working independently at the computer, you'll like the color posters best. If you are printing them on a black and white (B&W) printer, the print quality of the posters will be better if you select the black and white version of the posters to print.

### Key Topic: How Can I Save and Invest?

Many people get into the habit of saving or investing by following this advice: "Pay yourself first." Many people find it easier to pay themselves first if they allow their bank to automatically remove money from their

paycheck and deposit it into a savings or investment account. Other people pay themselves first by having money automatically deposited into an employer-sponsored retirement savings account, such as a 401(k).

There are many different ways to save and invest, including:

[Consider asking the students to identify different ways to save and invest, and ask them to explain each.]

- **Savings Accounts.**

  If you save your money in a savings account, the bank or credit union will pay you interest, and you can easily get your money whenever you want it. At most banks, your savings account will be insured by the Federal Deposit Insurance Corporation (FDIC).

- **Insured Bank Money Market Accounts.**

  These accounts tend to offer higher interest rates than savings accounts and often give you check-writing privileges. Like savings account, many money market accounts will be insured by the FDIC. Note that bank money market accounts are not the same as money market mutual funds, which are not insured by the FDIC.

- **Certificates of Deposit.**

  You can earn an even higher interest if you put your money in a certificate of deposit, or CD, which is also protected by the FDIC. When you buy a CD, you promise that you're going to keep your money in the bank for a certain amount of time.

- **Stocks.**

  Have you ever thought that you'd like to own part of a famous restaurant, or the company that makes the shoes on your feet? That's what happens when you buy stock in a company-you become one of the owners. Your share of the company depends on how many shares of the company's stock you own.

- **Bonds.**

  Many companies borrow money so they can become even bigger and more successful. One way they borrow money is by selling bonds. When you buy a bond, you're lending your money to the company so it can grow. The company promises to pay you interest and to return your money on a date in the future.

- **Mutual Funds.**

  Stocks and bonds can be purchased individually, or you can buy them by buying shares of a mutual fund. A mutual fund is a pool of money run by a professional or group of professionals who have experience in picking investments. After researching many companies, these

professionals select the stocks or bonds of companies and put them into a fund. Investors can buy shares of the fund, and their shares rise or fall in value as the values of the stocks and bonds in the fund rise and fall.

**Key Topic: Risk and Return**

Every saving or investing product has its advantages and disadvantages. Differences include how fast you can get your money when you need it, how fast your money will grow, and how safe your money will be. For example,

- **Savings Accounts, Insured Money Market Accounts, and CDs.**

  With these products, your money tends to be very safe because it's federally insured, and you can easily get to your money if you need it for any reason. But there's a tradeoff for security and ready availability. Your money earns a low interest rate compared with investments. In other words, it gets a low return.

- **Stocks.**

  Over the past 60 years, the investment that has provided the highest average rate of return has been stocks. But there are no guarantees of profits when you buy stock, which makes stock one of the most risky investments. If the company doesn't do well or falls out of favor with investors, your stock can fall in price, and you could *lose* your money.

  You can make money in two ways from stock. First, the price of the stock can rise if the company does well and other investors want to buy the company's stock. If a stock rises from $10 to $12, the $2 increase is called a *capital gain* or *appreciation*. Second, a company sometimes pays out a part of its profits to stock holders-that's called a *dividend*. Sometimes a company will decide not to pay out dividends, choosing instead to keep its profits and use them to expand the business, build new factories, design better products, or hire more workers.

  One of the riskiest investments you can make is buying stock in a new company. New companies go out of business more frequently than companies that have been in business for decades or longer. If you buy stock in a small, new company, you could lose it all. Or the company could turn out to be a success. You'll have to do your homework and learn as much as you can about the company before you invest. And only invest money that you can afford to lose.

- **Bonds.**

  The company's "promise to repay" your principal generally makes bonds less risky than stocks. But bonds can be risky. To assess how risky a bond is you can check the bond's credit rating. Unlike stockholders, bond holders know how much money they will make, unless the company goes out of business. If the company goes out of

business or declares bankruptcy, bondholders may lose money. But if there is any money left in the company, they will get it before stockholders. Bonds generally provide higher returns (with higher risk) than savings accounts, but lower returns (with lower risk) than stocks.

- **Mutual Funds.**

  Mutual fund risk is determined by the stocks and bonds in the fund. No mutual fund can guarantee its returns, and no mutual fund is risk-free.

***Conclusion***

Always remember: the greater the potential return, the greater the risk. Risk is scary because no one wants to lose money, but there's also such a thing as "too safe." We all know that prices go up. That's called *inflation*. For example, a loaf of bread that costs a dollar today could cost two dollars ten years from now. If your money doesn't grow as fast as inflation does, that's like losing money, because while a dollar buys a whole loaf of bread today, in ten years it might only buy half a loaf.

**Key Topic: What Is "Diversification"?**

One of the most important ways to lessen the risks of investing is to *diversify* your investments. It's common sense: don't put all your eggs in one basket. If you buy a mixture of different types of stocks, bonds, or mutual funds, your savings will not be wiped out if one of your investments fails. Since no one can accurately predict how our economy or one company will do, diversification helps you to protect your savings. If you had just one investment and it went down in value, then you would lose money. But if you had ten different investments and one went down in value, you could still come out ahead.

**Key Topic: Credit Management**

Many adults—and plenty of students—have wallets filled with credit cards, some of which they've "maxed out" (meaning they've spent up to their credit limit). Credit cards can make it seem easy to buy expensive things when you don't have the cash in your pocket—or in the bank. But credit cards aren't free money.

Most credit cards charge high interest rates—as much as 18 percent or more—if you don't pay off your balance in full each month. If you owe money on your credit cards, the wisest thing you can do is pay off the balance in full as quickly as possible. Few investments will give you the high returns you'll need to keep pace with an 18 percent interest charge. That's why you're better off reducing your credit card debt.

Once you've paid off your credit cards, you can budget your money and begin to save and invest. Here are some tips for avoiding credit card debt:

- **Put Away the Plastic.**

Don't use a credit card unless your debt is at a manageable level and you know you'll have the money to pay the bill when it arrives.

- **Know What You Owe.**

  It's easy to forget how much you've charged on your credit card. Every time you use a credit card, write down how much you spent and figure out how much you'll have to pay that month. If you know you won't be able to pay your balance in full, try to figure out how much you can pay each month and how long it'll take to pay the balance in full.

- **Pay Off the Card with the Highest Rate.**

  If you've got unpaid balances on several credit cards, you should first pay down the card that charges the highest rate. Pay as much as you can toward that debt each month until your balance is once again zero, while still paying the minimum on your other cards.

**Key Topic: Achieving Financial Security**

- **Make a Plan.**

  The key to financial security is to have a "financial plan." That means you should set financial goals and start saving or investing to reach those goals. While that may sound hard, it doesn't have to be. You'll first need to figure out where you're starting from – for example, how much do you owe, how much money have you saved already, how much money will get from your job or your parents. Next, you should set goals. Do you want a car? A college education? New clothes? Once you know what you want, when you want it, and how much it costs, you can figure out how much you need to save each week or month or year.

- **Keep Trade-Offs and "Opportunity Cost" in Mind.**

  Unless you're lucky enough to have an unlimited amount of money, you'll have to choose how you spend your money. That means you'll have to make trade-offs and consider the "opportunity cost," meaning what you give up by choosing one option over another. For example, let's say you've got $100.00:

  If you put the money in an account that earns 5 percent interest, you'll have $105.00 at the end of the year.

  If you spend it on new clothes, you won't earn that extra $5.00, although you should still have the clothes. But if you wanted to sell them, they'd probably be worth less, especially if they're used or out of style.

  If you spend the money on video games at the arcade, you'll have nothing at the end of the year, except the memory of whatever fun you had playing those games.

- **Save and Invest for the Long Term.**

  Perhaps the best protection against risk is time, and that's what young people are fortunate to have the most of. On any day the stock market can go up or down. Sometimes it goes down for months or years. But over the years, investors who've adopted a "buy and hold" approach to investing tend to come out ahead of those who try to time the market.

- **Investigate Before You Invest.**

  Another way to reduce risk is to do your homework before you part with your hard-earned cash. Call your state securities regulator to check up on the background of any person or company that you're considering doing business with. You'll find that number in the government section of your phone book. Find out as much as you can about any company before you invest in it. Companies that issue stock have to give important information to investors in a booklet called a "prospectus" and, by law, that information is supposed to be truthful. Always read the prospectus. And beware of "get rich quick schemes." If someone offers you an especially high rate of return on an investment or pressures you do invest before you've had time to investigate, it's probably a scam.

- **Avoid the Costs of Delay.**

  Time can also be the most important factor that will determine how much your money will grow. If you saved five dollars a week at 8% interest starting from the time you were eighteen years old, you'd have $134,000 saved by the time you're 65. But if you wait until you're 40 years old to start saving, you'll have to save $32 a week to catch up. In fact, just one year's delay - waiting until you're 19 years old to start saving five dollars a week at 8% interest - will cost you more than $10,000 by the time you're 65.

**Resource List**

- **Financial Literacy Quiz.**

  The SEC's quiz, Test Your Money Smarts, tests the top ten things students should know about money. The quiz is also available in a pdf version with an answer key.

- **AIE Savings Calculator.**

  This online, interactive tool shows how small amounts saved today can add up to big money over a lifetime. Using real-life examples—such as CDs, fast food, jeans, and sneakers—the calculator tells students how much they'll accumulate by retirement if they save money instead of spending it. The calculator assumes an 8 percent annual return and retirement at age 65. You'll find the calculator and other helpful information on saving and investing at www.investoreducation.org.

- **Ballpark Estimate.**

  Developed by the American Savings Education Council (ASEC), the Ballpark Estimate is a single-page worksheet that helps individuals quickly calculate how much they'll need to save each year for retirement. You'll find the Ballpark Estimate on ASEC's Web site at www.asec.org. Be sure to hand out the Ballpark Estimate for students to take home to their parents.

- **ASEC Poster.**

  Created by the American Savings Education Council, this bright, colorful poster reinforces the message that students *can* save if they put their minds to it and that those savings can add up over a lifetime. You'll find the poster and other useful savings tools, such as the Ballpark Estimate, on ASEC's Web site at www.asec.org.

- **"Get the Facts on Saving and Investing".**

  A basic primer from the U.S. Securities and Exchange Commission to get you started on the road to saving and investing.

- **"Consumer's Almanac".**

  A helpful calendar tool from the American Financial Services Association Education Foundation to help you organize your finances and manage your money.

*http://www.sec.gov/investor/students/tips.htm*